

Hong Kong University of Science & Technology

School of Business and Management

FINA 512 – CORPORATE FINANCE
FALL 2004

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COURSE OUTLINE

This core course provides a framework for analyzing the major types of investment and financing decisions made by firms. We start with corporate investment decisions and then move to an understanding of how firms decide between alternative sources of financing their investments. We also examine the concept of risk and return and learn how to estimate the cost of debt, the cost of equity, and the weighted average cost of capital (WACC). A good knowledge of the topics in this course is important for anyone thinking of a career in investment banking, consulting, and corporate management.

PREREQUISITES

A strong background in financial accounting, microeconomics, and business statistics is essential. In addition, you need basic Excel spreadsheet skills.

READINGS

Required Text

- The text for the course is: *Corporate Finance* by Stephen A. Ross, Randolph W. Westerfield, and Jeffrey A. Jaffee, Richard D. Irwin Inc., 7th edition, 2005 (RWJ).
- *Case studies and readings*

Supplementary Readings

- *Principles of Corporate Finance* by Richard Brealey and Stewart C. Myers, McGraw-Hill, 7th Edition (BM). This is another excellent text giving a similar treatment to the Ross, Westerfield, and Jaffe textbook.
- *Corporate Finance: A Valuation Approach* by Simon Benninga and Oded Sarig (McGraw Hill, 1997). This textbook looks at applied corporate finance issues

with particular emphasis on financial modeling techniques. The text provides a good theoretical understanding behind corporate valuation issues.

- *Capital Ideas: The Improbable Origins of Modern Wall Street*, by Peter Bernstein.
- *Asian Wall Street Journal*

COURSE SCHEDULE, READINGS AND DUE DATES

1.	OCTOBER 29, 2004 (PM) OCTOBER 30, 2004	Syllabus. Introduction and Vocabulary. Theory of value.
		<i>Readings:</i> RWJ: Chapters 1, 4, 5.1-5.3 and 13
2.	NOVEMBER 5, 2004 (AM) NOVEMBER 6, 2004 PROBLEM SET 1 DUE	Valuation of bonds and stocks <i>Readings:</i> RWJ: Chapters 2 and 5
3.	NOVEMBER 12, 2004 (PM) NOVEMBER 13, 2004 PROBLEM SET 2 DUE	Investment decisions <i>Readings:</i> RWJ: Chapter 6 and 7
4.	NOVEMBER 19, 2004 (AM) NOVEMBER 20, 2004 CASE DUE: OCEAN CARRIERS	Project evaluation Decision trees <i>Readings:</i> RWJ: Chapters 7 and 8 Copeland, "Cutting costs without drawing blood..." <i>Cases:</i> - Ocean Carriers, HBS Case # 9-202-027 - Merck & Company: Evaluating a Drug Licensing Opportunity, HBS Case # 9-201-023
5.	NOVEMBER 26, 2004 (PM) NOVEMBER 27, 2004 PROBLEM SET 3 DUE	Corporate financing decisions <i>Readings:</i> RWJ: Chapter 15 and 16 Rajan and Zingales: "What do we know about..."

Myers, “The Capital Structure Puzzle”

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| 6. | DECEMBER 3, 2004 (AM)
DECEMBER 4, 2004

CASE DUE: DEBT POLICY AT
UST INC. | Capital structure and the cost of capital
Estimating the cost of equity and cost of debt
(with a brief overview of CAPM and its
applications)

<i>Readings:</i>
RWJ: Chapters 12, and 17

<i>Case:</i> Debt Policy at UST Inc., HBS Case # 9-
200-069 |
| 7. | DECEMBER 10, 2004 (PM)
DECEMBER 11, 2004

PROBLEM SET 4 DUE | Divisional cost of capital
Review of the course

<i>Case:</i> Lex Service PLC – Cost of Capital, HBS
Case # 9-296-003 |
| 8. | DECEMBER 18, 2004 (AM) | Final Exam
9:30 AM to 12:00 PM |
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